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AUDIT STAFF

REPORT OF AUDIT

This report presents the findings developed from an audit undertaken pursuant to Audit Staff responsibilities and authorities set forth in organization regulations. Unless otherwise indicated in the report, the audit included review and appraisal of internal controls and procedures and such other audit processes, test checks and verification of accounts, assets and transactions as were considered appropriate and consistent with generally accepted audit standards in the circumstances.

The objectives of the audit were to determine for management whether

- (1) Adequate controls and procedures have been established and are being applied effectively to safeguard organization resources and assure that resources are used only for approved and legal purposes, and
- (2) Activities are being conducted economically, efficiently and in conformance with policy determinations and directives.

Supply Division

For the period:

1 June 1962

From

30 June 1963

Through

25X1A9A

Chief, WH-FB Division

Date 27 September 1963

This report consists of 16 pages.

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REPORT OF AUDIT
Supply Division

For the Period
1 June 1962 to 30 June 1963

INTRODUCTION

1. The Supply Division of the Office of Logistics formulates policies and standards for the operation of the Agency supply system world-wide. Until July 1963, when action was initiated to decentralize accountability for property [redacted] the Supply Division was accountable for all property on hand and in use in [redacted] [redacted] and for much of the property in use in the Headquarters area; now its accountability is limited to property in the [redacted] and the Headquarters area. Total obligations for Fiscal Year 1963 for administration of Headquarters Supply Division [redacted] amounted to [redacted] of which over half was applicable to Headquarters Supply Division [redacted]

2. The audit was limited to the Supply Division components which are responsible for the physical control of Headquarters property and for recording related transactions in financial property accountability records maintained by Automatic Data Processing Division, namely, [redacted] the Depot Stock Control Branch (DSCB), and the Inspection and Inventory Section (I&I) of Field Support Branch.

SUMMARY OF FINDINGS AND RECOMMENDATIONS

3. Our review disclosed that the basic data in the Agency's official financial property records maintained by the Automatic Data Processing Division (ADPD) is unreliable because the necessary controls have not been established to assure the recording in the EDP system of all documentation

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representing Headquarters property transactions. Also, the systems studies necessary to obtain full utilization of the capabilities of the EDP system have not yet been completed, with the result that certain functions which might be performed automatically are still being performed clerically. Establishment of the necessary controls and procedural refinements will require the cooperative efforts of the Office of Logistica, the Comptroller, and ADP representatives.

4. Recommendations resulting from the audit are summarized below and detailed in the paragraphs indicated:

- ✓a. Establish controls to assure that all supply transactions are processed into the EDP system. (Paragraph 5)
- ✓b. Provide numerical control over property vouchers. (Paragraphs 6 to 9) (question as to which method is best) suggesting additional numbers be added to each document some question if included
- ✓c. Expedite completion of systems analysis of supply procedures. (Paragraphs 10 and 11)
- ✓d. Determine current status of rejected transactions, correct items not previously corrected, and establish adequate control over these items. (Paragraphs 14 and 15)
- ✓e. Take the necessary action to reduce the number of rejected transactions. (Paragraph 16)
- ✓f. Revise procedure to provide for transfer of accountability at time of issue for property issued to proprietary projects and contractors. (Paragraph 17)
- ✓g. Revise format of RIA's to show nature of adjustments. (Paragraph 18)
- ✓h. Clear questionable debit balances and revise related procedures. (Paragraph 19)
- ✓i. Review procedures for controlling property-in-use accounts and revise as necessary. (Paragraph 20) actually pointing PT 1's

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- ✓j. Adhere to prescribed procedures for charge-out of vouchers and review files for periods not covered by I&I Section. (Paragraph 21)
- ✓k. Consider taking additional measures to limit the number of line items on each requisition. (Paragraph 22) *maybe 1 page ok to modify 1 line per page*
- ✓l. Assign voucher numbers to PTI documents, log them in immediately upon receipt of materiel, and expedite processing of materiel. (Paragraph 23a)
- ✓m. Expedite delivery of materiel to Headquarters components, and instruct components to submit adequate information in the future. (Paragraph 23b) *Expedite ok but not to detriment of outgoing shipments*
- ✓n. Expedite processing the materiel on hand returned by contractors. (Paragraph 23c)
- ✓o. Expedite processing of materiel received from field installations. (Paragraph 23d) *Same as above*
- ✓p. Use more care in maintaining the receiving report voucher control register, and establish a more effective system for following up on delinquent documents. (Paragraph 24)
- ✓q. Make appropriate disposition of property stored for other components, assure that nonexpendable property is on accountable records, and establish a firm temporary storage policy. (Paragraph 25)
- ✓r. Revise procedures to implement a policy whereby commercial vendors will be advised that unless rejected materiel is picked up within 30 days of notice, the materiel will be returned to them, charges collect. (Paragraph 26) *DSB*

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DETAIL COMMENTS

GENERAL

Control of Supply Transactions Processed Into
The EDP System Inadequate

5. Under present Supply Division procedures, internal controls are inadequate to assure that all supply transactions are processed into the EDP system. Such controls are essential in any system of mechanized accounting because of the importance of assuring the reliability of input data introduced into the system. For maximum effectiveness, the controls should be designed to assure that every transaction affecting the supply accounts on every document processed by Supply Division is recorded accurately in the EDP system. This may be accomplished by the use of "batch" dollar and quantity totals, "hash" totals, and other similar methods. We recommend that an appropriate system of internal controls be established to assure that all supply transactions are processed into the EDP system.

EDP System Not Used to Control Missing Vouchers or Transactions

6. Although the voucher numbering system presently used by Supply Division appears to provide a desirable and convenient method of internal control within the Division, it does not, in its present form and usage, provide the document control necessary to assure that all transactions have been received and processed into the EDP system. Such a control is essential in any machine system since, without it, there can be no assurance that all data has been introduced accurately into the system and hence no reliance can be placed on the data in the system.

7. Under the present system, at the time transaction documents are originated, voucher numbers are assigned by originating units from one of 30 to 40 blocks of numbers issued to the units each fiscal year for use on specified types of transactions. Voucher registers are maintained for control purposes in DSCE and several other units. Periodically, the official document files are reviewed for missing documents and for documents filed without the date stamp indicating that they have been processed through the flexowriter. This system

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does not, however, provide for a verification by the EDP system that all voucher numbers and transactions have been processed into the system. Our audit disclosed a number of vouchers of various types which were filed in the official document files without being processed into the EDP system.

8. In the recent Report of Audit of Accounts Branch as of 30 November 1962, we recommended the establishment of an appropriate sequential numbering system for property vouchers, but this was not deemed feasible by Supply Division officials. In view of the importance of assuring the reliability of supply data in the EDP system, however, we are again recommending that action be taken in this matter. We believe that, with little or no change, the voucher numbering system presently in use for all types of transactions except requisitions used as credit vouchers, can be used to provide the necessary control by merely establishing an EDP program which will ascertain which numbers in the various sequences have not been used. Lists of these numbers would be furnished periodically to the Supply Division for research. We feel that, in the long run, this would save considerable time of Supply Division personnel by eliminating much of the research required under the present system at the time inventories are made as well as at other times.

9. Requisition vouchers present a special problem because several transactions may be recorded at various times under the same voucher number. One possible solution which would require only a minimal change in the present system would be to add a one or two digit suffix number after the basic voucher number and indicate when the final suffix number has been used. We recommend that this, or another appropriate method, be used so that voucher numbers and transactions represented by requisitions as well as other documents can be controlled by the EDP system.

Systems Study Needed

10. Although Supply Division, during the conversion from the electric accounting machine (EAM) system to the electronic data processing (EDP) system in 1960, made a preliminary study of the supply system which resulted in some procedural refinements and elimination of a number of reports, the current

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system for recording supply transactions under EDP is still essentially the same as was used under EAM. Thus, the greater capabilities of the EDP system, both as to speed and flexibility, are not being utilized for supply transactions with the result that a considerable amount of manual posting of transactions and computing of stock replenishment requirements is still being performed by stock editors, analysts, and others. Two examples of such manual record-keeping are as follows:

- a. Since stock status listings are received only once each month, stock editors, in order to know the day-to-day status of stock for the purpose of filling requisitions, must manually post all receipt, issue, due-in, and due-out transactions to the stock status listing for each line item. Under the EAM system, this was probably necessary in view of the limitations of the machines. The EDP system, however, should be capable of handling an automatic internal editing procedure which would eliminate or considerably reduce the need for manual posting to stock status listings.
- b. Under the present system, Economic Order Quantities (EOQ) formulas are used to determine quantities to place on replenishment requisitions for about 10,000 line items in the supply system. The entire process of computing the formula, preparing the requisition, and posting the action to a special stock card, is handled manually by three stock analysts. We believe that it may be possible to handle a considerable portion of this process automatically under the EDP system, thereby eliminating a considerable amount of manual posting and computing.

11. In order to obtain maximum utilization of the capabilities of the EDP system and thus achieve a more efficient supply system, it will be necessary to make a systems analysis of Supply Division property accounting procedures and records, and to devise and reprogram new, more

*Random
processes needed
machines needed*

✓ OK

*(1) presently
very slow
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efficient procedures. This need was recognized by Agency officials before the conversion from EAM to EDP was made, and was also recognized by Supply Division officials in the reply to the audit report of 31 May 1962 in which it was stated that a task force made up of representatives of Supply Division, Office of Comptroller (TAS and ADPD), and ADPS had been designated for the purpose of making a complete systems analysis of supply procedures. The audit disclosed, however, that although this task force has had several meetings and has initiated a number of revisions in the procedures, little progress has been made toward completing a systems analysis of the scope required to obtain maximum utilization of EDP capabilities. We were informed during the course of the audit that the task force will be re-activated in the near future for this purpose. We recommend that completion of the systems analysis be expedited and that it include an exploration of the possibilities of utilizing machine methods to eliminate or reduce the amount of manual posting, computing, and requisitioning performed under the present system.

Control of Shipping Documents by Sequential Numbering System Lacking

12. Under present procedures, shipping documents, which are used by Finance Division as the basis for crediting Account 175.9 - Materiel Barmarked for Shipment, do not contain sequential numbers assigned at the time they are processed by Transportation Division. Thus, Finance Division has no means of assuring that it receives all such documents for processing. This weakness was recognized during the last audit of Accounts Branch at which time it was found that Account 175.9 contained many old uncleared balances; the related Report of Audit recommended that a sequential numbering system be established. This was not considered feasible by the Office of Logistics, however, and in lieu thereof the Transportation Division started using transmittal sheets for forwarding shipping documents to Finance Division.

13. During the current audit, we found that Supply Division and Finance Division, until recently, had worked diligently to clear old balances from the account. To illustrate, during the period from July 1962 to the date of our audit, eleven monthly listings of uncleared balances over

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six months old for the period from 1 January 1962 to 30 November 1962 had been researched and partially corrected. These listings contained uncleared balances pertaining to 3,680 property vouchers for which Supply Division located and forwarded to Finance Division 2,980 shipping and other documents that had not been previously recorded. Similar statistics are not yet available, however, covering the later period during which the Transportation Division used transmittal sheets for forwarding shipping documents to Finance Division. Therefore, we will defer any further recommendations in this matter pending a review during the next audit to determine whether the revised procedure represents adequate control over the recording of shipping documents.

Control of Rejected Transactions Inadequate

14. Established procedures provide that the EDP system will reject all transactions which contain erroneous or mismatched data and all issue transactions which exceed quantities on hand. Listings of the rejections, called "read-outs" and "garbled messages," are furnished Supply Division by ADPD twice each month. These listings are kept by the Da-Span Unit of DSCB which has primary responsibility for assuring that the required corrective action is taken. Copies of the listings are also given the stock editors who take corrective action on certain items.

15. The audit disclosed that the Da-Span Unit does not maintain adequate control to assure that corrective action is taken promptly on all rejections. We were told that the informal procedure used by the Da-Span Unit provides that the Unit employee or stock editor who makes the correction will mark the item corrected on the control listings. A cursory review of these listings from inception of the system, however, disclosed many items not marked corrected. Without making a detailed examination of document files or stock editors' copies of the listings, we were unable to determine which items, if any, remained uncorrected at the time of our audit. We recommend that the present status of uncorrected items from inception to date be determined, and that corrective action be taken on all uncorrected items. We also recommend that adequate centralized control be maintained over the correction status of all rejections, and that consideration be given to

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requiring the responsible control unit to submit to Supply Division management monthly reports showing the number of rejections each month and the current status of corrective actions on a cumulative basis.

16. Although the number of rejections per month has been reduced considerably since the system was initiated, the present rejection rate is still high. To illustrate, during July and August 1963, out of about 40,000 line item transactions processed, 1,325 line item transactions were rejected as follows:

<u>Read-outs:</u>	<u>Number</u>	<u>Percent</u>
Differences exist between transaction data and data in EDP system		
Unit prices.....	441	36
Other data.....	432	35
Quantity on issue transactions exceeds balance on hand in EDP system.....	<u>357</u>	<u>29</u>
Subtotal.....	1,230	100
<u>Garbled messages</u>	<u>95</u>	
Total.....	<u>1,325</u>	

We recommend that document review and verification procedures be strengthened as necessary to reduce the number of rejections due to erroneous or mismatched data. Also, we recommend that direct shipment transactions be mechanically verified by flexowriter operators in the same manner as other transactions are verified.

Accountability Dropped for Certain Issues Of Nonexpendable Property

17. Under present procedures, Supply Division drops accountability at the time of issue for nonexpendable property issued to [redacted] Agency contractors. Although it is contemplated that accountability for property will be re-established through [redacted] Procurement Division [redacted] effective 04/07/63.

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during the period between issue and pickup to assure that accountability for the property is, in fact, re-established. We feel that in any instance where nonexpendable property is issued to an Agency-controlled or accountable activity, accountability should be transferred at the time of issue to the appropriate general ledger asset account, which in these instances would probably be [redacted]

25X1 [redacted] Account 174 - Property In the
Hands of Contractors. We recommend that Supply Division
procedures be changed accordingly.

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Nature of Adjustments Not Shown On Certain
Adjustment Vouchers

18. The machine listings which show line item details, in stock number order, of adjustments made as a result of physical inventories conducted by I&I Section, do not identify the nature of such adjustments. Thus, the listings could include serious shortages which perhaps should be subjected to survey action. We recommend that the nature of each adjustment be identified by a special code number, and that the listings supporting the adjustment vouchers be summarized by type of adjustment. This will facilitate the review made by the Chief, Supply Division, prior to his approval of the adjustment vouchers and provide a necessary record of the reason and justification for the adjustment.

Follow-up On Questionable Debit Balances Inadequate

19. The audit disclosed that Allocation Code 07 - Questionable Debit Balances, which is included in the stock on hand listing, contained a considerable number of balances many of which were rather old. To illustrate, the 24 May 1963 stock status listing contained 244 line items with a value of \$108,520 in this category. A review of 11 larger line items disclosed that three were over a year old and two were 6 to 12 months old. These balances are placed in Allocation 07 on the basis of an RIA for the quantity by which the requisition exceeds the actual balance in the warehouse. Generally, the research necessary to clear these balances is not performed until a physical inventory is made by I&I Section. We recommend that the items in this allocation be analyzed and cleared as soon as practicable. We were advised by Supply

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Division officials that this will be done in the near future and that the use of Allocation Code 07 will be discontinued by a revision of procedures to provide for immediate researching and adjustment at the time requisitions are processed.

Unnecessary Work Performed in Controlling
Property-In-Use Accounts

20. Although the procedures for controlling the 120 property-in-use accounts for which Supply Division is accountable (Account 171) are generally adequate, it appears that some unnecessary work is being performed by DSCB. For example, all credit voucher transactions are hand posted on a daily basis to the monthly status listings of Account 171 which are by line item in stock number order. Also, all items on the monthly listings are manually verified each month to the previous month's listing to assure that none were omitted by the EDP system. These steps should not be necessary since files of all documents affecting each account are maintained. Furthermore, it should be possible to place more reliance on the EDP system. We recommend that the procedures for controlling these property-in-use accounts be reviewed and revised as necessary to eliminate any unnecessary work and records.

Documents in Central Files Not Adequately Controlled

21. A review of central files in DSCB disclosed that many processed documents were out of file and were not recorded on charge-out cards. Also, we noted many charge-out cards which were dated several months prior to our review. The established procedures for charging out vouchers appeared adequate but were not being followed during some periods, we were told, because of shortages of personnel. The I&I Section, each quarter, reviews the files of vouchers completed during the quarter and reports missing vouchers to DSCB for research. These reviews do not, however, cover vouchers filed in previous quarters and do not include an examination of dates on charge-out cards. We recommend that prescribed charge-out procedures be adhered to and that periodic reviews be made of vouchers and charge-out cards for periods not now covered by I&I Section.

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Reduction in Requisition Line Items Desirable

22. The previous audit report (paragraph 28) recommended that procedures be revised to limit the number of line items on requisitions in order to achieve more efficient processing. The current audit disclosed some improvement in this area, however, many requisitions still contain numerous line items thus complicating processing because of extracts, back orders, etc. This problem has been solved by other large supply activities (DOD and GSA) by instituting a one line item requisitioning policy. We recommend that consideration be given to the advantages to be gained from a similar Agency policy and in any event that a limit be placed on line items per requisition which will reduce the need for partial and piecemeal processing of requisitions.

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Improvement Needed in Records, Procedures, and Status
Of Work in Classification and Repair Section

23. Our review of the Classification and Repair Section (C&R Section) which receives and processes property turned in by Headquarters components, field installations, and Agency contractors, disclosed deficiencies in records and procedures as well as a sizeable backlog of materiel and documents. Details by type of transaction are described below:

a. Property turned in by Headquarters components

The C&R Section receives this property, accompanied by Property Turn-In (PTI) documents, and acts as the control point in seeing that it is inspected, identified, classified, and disposed of as appropriate. The section maintains an informal PTI voucher register and assigns sequential numbers to the PTI documents. Completed PTI's are sent to DSCB for recording in the official voucher register and processing in the EDP system. The audit disclosed that PTI documents are not assigned voucher numbers and logged in

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immediately upon receipt of the property. Also, materiel is not processed and disposed of quickly enough. At the time of our audit, we noted that C&R Section had on hand about 75 unprocessed PTI's involving 383 line items of property, analyzed as follows:

<u>Months held by C&R Section</u>	<u>Line Items</u>
Assigned voucher numbers	
16 months.....	55
6 months.....	4
3 to 5 months.....	96
Not analyzed.....	<u>145</u>
Subtotal.....	<u>300</u>
Not assigned voucher numbers	
2 months.....	25
1 month.....	<u>58</u>
Subtotal.....	<u>83</u>
Total.....	<u>383</u>

We were told that much of the delay in processing this materiel occurs because it is given such low priority by the units which identify and inspect it. We recommend that PTI documents be assigned voucher numbers and logged in immediately upon receipt, that copies of unprocessed PTI's be sent immediately to an appropriate control point in the depot or DSCB for management and control purposes, and that processing of materiel received be expedited.

b. Property received from field installations for Headquarters components

The C&R Section acts as a receiving and delivery point for property specifically requested by

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Headquarters components from field installations. This property, because of the nature of the transaction (e.g. temporary loan) is not to be recorded in depot stock records. The requesting Headquarters components are supposed to furnish advance notice and details to C&R Section so that the property can be delivered promptly. The audit disclosed, however, that the C&R Section had on hand about 46 unopened cartons and that, in some instances, it did not have sufficient information on the materiel to permit prompt processing. We recommend that delivery of this materiel be expedited and that Headquarters components be instructed to submit adequate information on future deliveries of this type.

c. Property returned by contractors

Property returned to the Agency by contractors is received and disposed of by the C&R Section as directed on Requisition Documents prepared by Procurement Division. At the time of the audit, the Section had on hand 53 unopened cases of such property involving 37 terminated contracts. We recommend that processing of this materiel be expedited. *PRC*

d. Property returned to stock by field installations

The C&R Section receives and processes all property returned to Headquarters by field installations. At the time of our audit, the C&R Section had on hand about 10 such shipments involving 30 line items about half of which had been received five or more months previously. We recommend that processing of this materiel be expedited.

Receiving Report Voucher Register Not Adequately Maintained

24. The audit disclosed that the receiving report voucher control register maintained by the Receiving Section is not being kept in such a manner as to afford adequate control over receiving reports. This record is highly important since

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it is the only register maintained for receiving reports and is considered by DSCB as the official register for these documents. Examples of discrepancies found in the audit are as follows: (1) two voucher numbers were recorded in the register for the same document; (2) dates on which documents were returned by inspection units and forwarded to DSCB were not recorded in the register; (3) completed documents were placed in official voucher files without being processed through the EDP system; and (4) inspection units held documents for long periods of time and the follow-up system used by the Receiving Section was ineffective (only oral follow-ups were made). We recommend that more care be exercised in maintaining the receiving report voucher register and that a more effective system be used for following up on delinquent documents held by inspection units.

Courtesy Storage of Materiel Belonging to Other Components

25. The depot has on hand a large amount of property which is being held in "temporary" storage for various Agency components. This property is not recorded on Supply Division stock records and much of it, we are told, is not on the accountable records of the responsible components because it had been previously expended operationally. Some of it has been held in storage for years (as far back as 1956 in one case). The previous audit report recommended that, except for materiel held for very short periods, this property be taken into stock and picked up on accountable records. Some efforts were made during the audit period to have responsible components review their needs for the property, but apparently these efforts were not too successful. We recommend that: (a) all responsible components be requested to review their property to determine whether it is needed and whether all nonexpendable property has been picked up on their accountable records; (b) unneeded property be disposed of as appropriate; and (c) a firm temporary storage policy be established and adhered to in the future.

Delays in Disposal of Rejected Materiel

26. The depot has on hand a considerable amount of materiel which was received from vendors but rejected by the depot because of damage or other reasons. This materiel is

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not on Supply Division records but is being held pending pickup by vendors. A check of the 22 oldest items disclosed that 10 had been received over a year ago and 12 had been received from 6 to 12 months ago. Under prescribed procedures (LI 45-450-3), Procurement Division, upon notification by Supply Division, is responsible for requesting vendors to pick up the materiel. Our review disclosed that Supply Division generally notifies Procurement Division promptly when materiel is rejected, and Procurement Division contacts the vendor promptly and notifies Supply Division when the vendor agrees to pick up the materiel. Vendors do not, however, always pick up the materiel as promised. We recommend that procedures be revised to implement a policy whereby commercial vendors will be advised that unless rejected materiel is picked up within 30 days of notice, the materiel will be returned to them, charges collect, materiel to be so shipped promptly after lapse of the stated time.

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